State Profile

Fall 2005

Missouri

Missouri experienced broadly based economic expansion in the second quarter, but continued to grow more slowly than the nation.

- Missouri's economy added more than 20,000 jobs in the second quarter of 2005, the largest quarterly increase in nearly six years (see Chart 1). Total payroll employment reached its highest level since the third quarter of 2001. Every sector except government added jobs, with the largest increases occurring in health services and leisure and hospitality industries. However, year-over-year employment growth was only half the national rate.

- While Missouri's manufacturing employment increased by more than 2,000 jobs in the second quarter, this sector's growth remains sluggish and is still more than 84,000 jobs below its peak level reached in 1998.

- The unemployment rate declined to 5.5 percent from 5.8 percent in the first quarter, with more significant improvements occurring in the larger metropolitan areas of **St. Louis** and **Kansas City**.

- The recent hurricanes' effects on the Missouri economy appear to be modest and are centered on energy. Like other states in the region, energy prices have risen sharply, but supplies have remained adequate. Farmers face substantially higher fuel costs during the harvest season.

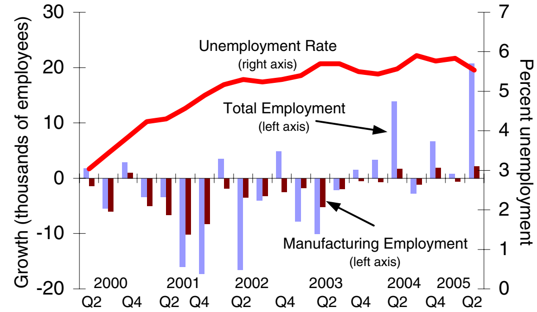
Missouri's rural counties have relatively large concentrations of elderly people.

- Based on 2000 Census data, 41 of Missouri's 115 counties rank in the top quarter of the nation's counties in terms of population older than 65. All but one of these counties are rural (see Map 1).

- Large concentrations of the elderly tend to be associated with rural depopulation, as 19 of the older counties lost population between 1970 and 2000. These counties typically experience the out-migration of younger people seeking educational or employment opportunities.

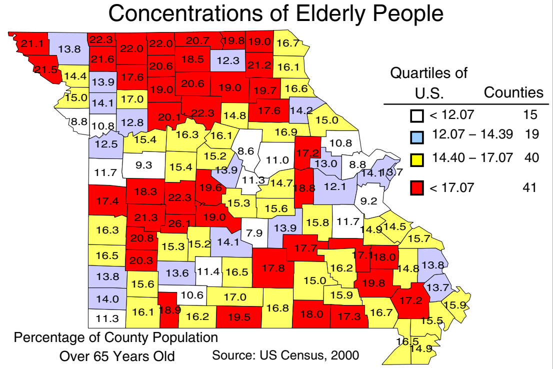
- The Census Bureau projects that by 2030, 20.3 percent of Missouri's population will be older than 65, compared with 19.7 percent for the United States.

Chart 1: Missouri Saw a Sharp Increase in Jobs in the Second Quarter of 2005



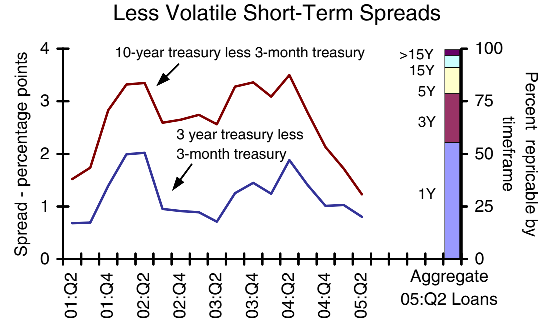
Source: Bureau of Labor Statistics/ Haver Analytics

Map 1: Missouri's Rural Counties Have Significant Concentrations of Elderly People



Source: US Census, 2000

Chart 2: Missouri Loan Portfolios Closely Track the Less Volatile Short-Term Spreads



Source: Federal Reserve Board, FDIC, June 2005 bank call reports, Missouri small community banks.

Despite a large presence of elderly in Missouri's rural areas, rural institution core deposit growth exceeds the U.S. trend.

- Insured institutions operating in rural areas face funding challenges, especially in areas with large elderly populations. Commonly, when elderly depositors pass away, their deposits quickly move to their heirs' institutions, often located in far-away metropolitan areas.

- Despite the high number of counties with significant numbers of elderly, Missouri's rural core deposit base has grown 60.6 percent over the past decade, compared with 52.0 percent for the nation.

Bank earnings remain solid as rising short-term rates have offset moderate declines in term yield spreads.

- Earnings performance remains positive for most Missouri institutions. The median return-on-assets ratio was 1.02 percent at June 2005, slightly lower than one year ago. Only 3.3 percent of institutions were unprofitable in the first half of the year.

- The declining spread between three-month and ten-year interest rates has many national banking analysts fretting about potential net interest margin (NIM) compression. However, Missouri's small community banks do not have the long-term loan exposure that would make them highly responsive to changes in long-term rates.[1] Nearly two-thirds of community bank loans reprice within three years; therefore, margins tend to track more closely the much less volatile three-month to three-year treasury spreads (see Chart 2).

- Given the typical asset-sensitive nature of small community banks, rising short-term rates often benefit small bank margins, even when the yield curve flattens. In fact, the June 2005 median NIM in Missouri's small community banks was 4 basis points higher than a year earlier.

Asset quality continues to improve at Missouri insured institutions, and loan growth is strong.

- Delinquent loans at Missouri's insured institutions have declined for four straight years, and represented just 1.35 percent of total loans in June 2005 (see Chart 3).

- Although the state has seen a recent spike in consumer bankruptcies as a result of pending bankruptcy reform enactment, the typical Missouri institution has very low consumer loan exposure, and consumer loan charge-offs historically have been negligible.

- Spurred by business investment, insured institutions are experiencing strong loan growth. Commercial real estate lending was most pronounced growing a median 15.7 percent from a year earlier. Commercial business lending growth was also strong at 9.1 percent.

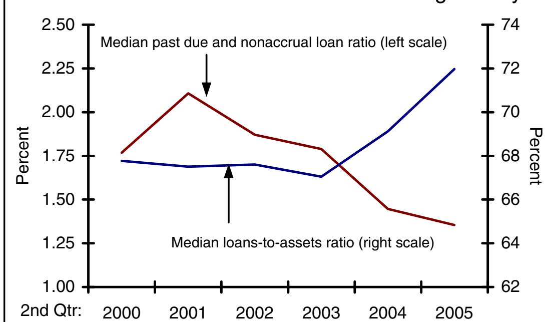
Drought conditions are depressing crop yields in Missouri.

- Drought conditions have significantly reduced crop yields in Missouri (see Map 2). The United States Department of Agriculture (USDA) forecasts corn production in 2005 to be 36 percent less than 2004, and nearly half of the crop is rated "poor" or "very poor." Similarly, the soybean crop is forecasted to be 28 percent less than the 2004 harvest.

- In addition to poor crop conditions, more than 75 percent of pasture and range conditions are poor or worse.

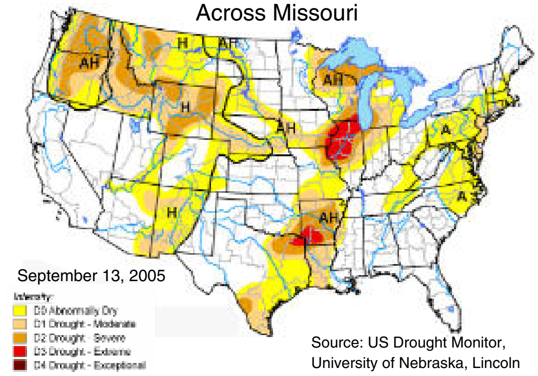
- In August, at the request of Missouri's governor, the USDA declared 112 of the state's 115 counties to be agricultural disaster areas because of significant crop losses.

Chart 3: Asset Quality Continues to Improve, and Institutions Have Increased Their Lending Activity



Source: FDIC, Missouri insured institutions.

Map 2: Drought Conditions Have Improved Slightly Across Missouri



Source: US Drought Monitor, University of Nebraska, Lincoln

[1] Small community banks are defined as FDIC-insured commercial banks with less than $250 million in total assets that have been in existence at least three years. At June 30, 2005, these institutions represented 87 percent of all insured institutions in Iowa.

Missouri at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.8%	1.1%	0.6%	0.5%	-0.7%
Manufacturing (12%)	0.7%	0.7%	-0.4%	-0.7%	-3.4%
Other (non-manufacturing) Goods-Producing (5%)	1.5%	2.7%	3.4%	2.6%	-0.9%
Private Service-Producing (67%)	0.8%	1.3%	1.2%	0.8%	-0.4%
Government (16%)	0.6%	0.1%	-1.9%	-0.7%	0.3%
Unemployment Rate (% of labor force)	5.5	5.8	5.6	5.7	5.6

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	5.9%	5.4%	6.8%	5.2%	3.7%
Single-Family Home Permits	7.3%	10.3%	13.2%	9.0%	7.7%
Multifamily Building Permits	38.4%	-4.1%	-21.6%	1.6%	-24.3%
Existing Home Sales	0.6%	4.9%	12.1%	8.2%	13.8%
Home Price Index	7.7%	7.6%	6.5%	6.9%	4.6%
Bankruptcy Filings per 1000 people (quarterly annualized level)	7.85	6.58	6.90	6.56	6.74

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	372	372	376	373	377
Total Assets (in millions)	94,025	91,971	89,036	91,786	86,837
New Institutions (# < 3 years)	8	9	5	8	6
Subchapter S Institutions	102	103	100	99	87

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.35	1.55	1.45	1.37	1.66
ALLL/Total Loans (median %)	1.18	1.20	1.20	1.19	1.20
ALLL/Noncurrent Loans (median multiple)	2.37	2.73	2.42	2.66	2.05
Net Loan Losses / Total Loans (median %)	0.02	0.02	0.04	0.09	0.12

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.30	9.17	9.02	9.14	9.03
Return on Assets (median %)	1.05	1.03	1.06	1.03	1.06
Pretax Return on Assets (median %)	1.47	1.41	1.45	1.42	1.39
Net Interest Margin (median %)	4.01	3.95	3.94	4.01	3.93
Yield on Earning Assets (median %)	5.95	5.72	5.50	5.59	5.83
Cost of Funding Earning Assets (median %)	1.90	1.74	1.51	1.58	1.86
Provisions to Avg. Assets (median %)	0.10	0.10	0.10	0.13	0.14
Noninterest Income to Avg. Assets (median %)	0.62	0.58	0.64	0.64	0.64
Overhead to Avg. Assets (median %)	2.78	2.74	2.72	2.80	2.76

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	72.0	70.9	69.1	70.4	68.5
Noncore Funding to Assets (median %)	17.7	17.0	16.6	16.5	15.6
Long-term Assets to Assets (median %, call filers)	8.9	9.1	11.0	9.0	11.0
Brokered Deposits (number of institutions)	89	85	74	85	64
Brokered Deposits to Assets (median % for those above)	3.0	3.3	2.4	2.7	1.8

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	77.0	76.1	75.7	76.7	77.2
Commercial Real Estate	201.8	196.4	186.3	196.6	178.9
Construction & Development	42.5	39.4	33.6	37.2	32.5
Multifamily Residential Real Estate	3.4	2.9	2.6	2.8	2.8
Nonresidential Real Estate	136.5	132.6	131.7	131.5	130.0
Residential Real Estate	216.0	216.6	221.9	218.7	218.1
Consumer	42.5	43.9	48.9	45.4	51.4
Agriculture	77.5	73.5	74.9	77.3	72.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
St. Louis, MO-IL	134	44,238	< $250 million	300 (80.6%)
Kansas City, MO-KS	154	31,123	$250 million to $1 billion	60 (16.1%)
Springfield, MO	43	6,134	$1 billion to $10 billion	11 (3%)
Jefferson City, MO	23	2,695	> $10 billion	1 (0.3%)
Columbia, MO	19	2,021		